



# NEW GUIDELINES FOR SERVICE EFFORTS AND ACCOMPLISHMENTS REPORTING IN THE UNITED STATES

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## Abstract

In the United States the Governmental Accounting Standards Board (GASB) on June 30, 2009, issued proposed guidelines for service efforts and accomplishments (SEA) performance reporting for state and local governments. This paper discusses GASB's proposed voluntary guidelines along with some recommendations for further improvement of SEA performance reporting. The proposed guidelines involve three elements (essential components, qualitative characteristics, and communication of SEA information). The proposal identifies four essential components for an effective SEA report (purpose and scope, major goals and objectives, key measures of SEA performance, and discussion and analysis of results and challenges). Also, the GASB proposal discusses six qualitative characteristics to be considered in developing SEA performance information (relevance, understandability, comparability, timeliness, consistency, and reliability). This proposal should increase the transparency of the SEA performance data presented to the constituents and other governmental users.

Keywords: Service efforts and accomplishments (SEA), performance reporting, U.S.A.

## 1. Introduction

In the United States traditional financial statements of state and local governments do provide information about a governmental unit's fiscal and operational accountability but do not provide all the information necessary to evaluate the extent that the governmental unit is successful. Mead [Mead, 2008] indicates that revealing whether a governmental unit has generated more money that it has spent is not an adequate measure of its "success." According to Mead [Mead, 2008], the constituents of the government need more information for evaluation purposes, such as, What did the governmental unit achieve? How much services were provided? Were the services rendered efficiently and effectively?

Service efforts and accomplishments (SEA) information is essential to constituents/users so that they can be informed on how efficiently the governmental unit provides services and how

effective are those services. The Governmental Accounting Standards Board (GASB) defines SEA reporting as the presentation of selected measures of performance results for a governmental unit. Selected performance measures could include, for example, the number of fire fighters employed by a city, graduation rate at the city high schools, or cost per ton of trash collected by a city. The focus of SEA reporting is to provide the users with decision-useful data about the governmental unit's actual achievement of its goals and objectives.

The accounting profession in the United States has discussed SEA performance information for inclusion in governmental financial reporting for nearly 40 years. In the 1970s both the American Accounting Association and the American Institute of Certified Public Accountants made positive recommendations for SEA information to be included as a part of governmental financial reporting to the public. In the 1980s and 1990s both the Financial Accounting Standards Board (FASB) and GASB issued concepts statements encouraging private sector not-for-profit entities and governmental units to present information about service efforts and accomplishments.

GASB has worked over the last two decades to encourage SEA performance reporting experimentation and monitoring by state and local governments. Some of the GASB activities include (a) two nationwide surveys of state and local governments, (b) development of case studies of best practices, (c) held citizen roundtable discussions, and (d) published several reports listing possible criteria for reporting SEA performance information. GASB's research finds that governmental financial statement users consider the reporting of SEA information to be important and generally support GASB's continuing efforts. Further, the research studies by GASB show that reporting of SEA information can assist constituents and elected officials to better determine whether their governmental unit is achieving its public policy objectives.

Based on extensive research GASB feels it is now time to establish conceptual guidelines for the purpose of preparing and reporting by governmental units of SEA performance information. As a result, on June 30, 2009, GASB issued a proposal entitled "Suggested Guidelines for Voluntary Reporting—Sea Performance Information." The features of this proposal will be discussed in this paper with some recommendations.

## 2. SEA Guideline Elements

GASB has proposed guidelines for voluntary SEA reporting involving three elements (essential components, qualitative characteristics, and communication of SEA information). In this proposal GASB recommends that the SEA reports be external reports issued separately from the governmental unit's traditional annual financial statements. However, there should be information in the SEA report relating the SEA report data to the traditional financial statements. That is, the SEA report should contain cross references where appropriate to the governmental unit's financial statements. Also, selected SEA performance information can be included in other reports such as a budget or a strategic plan.

In this proposal four essential components are identified for an effective SEA report. Also this proposal discusses six qualitative characteristics to be considered in developing SEA performance information. According to this proposal, for effective communication a SEA report needs to consider the intended user/audience of the information.

### 2.1. Essential Components

The four essential components for an effective SEA report are (1) purpose and scope, (2) major goals and objectives, (3) key measures of SEA performance, and (4) discussion and analysis of

results and challenges. These components should provide users with data that will help them in evaluating the efficiency and effectiveness of the services of a governmental unit.

#### *2.1.1. Purpose and Scope*

A statement of purpose should be incorporated into an effective SEA report. A statement of purpose should discuss reasons why the governmental unit is publishing the SEA report, stipulate the intended user/audience, identify the performance information that the report intends to communicate, and how the information can be assessed (for example, evaluation of efficiency or resource allocations of the government) and used in decision making.

Also, a statement of scope should be included in an effective SEA report. The scope identifies the organizational units, programs, or services encompassed in the report. Further, the scope indicates the level of detail of the information (for example, aggregate data for an entire city or disaggregated data covering specific geographic areas of the city). Also, the scope provides information regarding level of assurance concerning the reliability of the information, if any, and how users can obtain additional detailed information. The reasons for the inclusion of specific organizational units, programs, or services should be discussed in the statement of scope. A governmental unit needs to weigh the costs and benefits in determining which organizational units to include in reporting SEA performance information.

#### *2.1.2. Major Goals and Objectives*

The major goals and objectives of the reported programs and services should be stated in an effective SEA report. Goals define what a program or service expects to achieve in the long term, whereas, objectives refer to short-term program or service expectations. Objectives are preferably quantifiable and measurable in order to compare actual results to established targets. These objective achievements provide a measure of progress toward accomplishing long-term goals. Goals and objectives can be government wide or for specific individual programs or services.

Information related to major goals and objectives permits a means of evaluating (a) whether the intended results were achieved by the programs and services and (b) whether the users consider the indicated purpose of a program or service to be important. Also, a discussion of the intended accomplishments of the reported programs and services needs to be included in the report. Further, an effective SEA report explains the link between the major goals and objectives and the reported measures (for example, statistical information).

#### *2.1.3. Key Measures of SEA Performance*

In the SEA report key or essential measures need to communicate to the users sufficient information in order to develop their own opinions or conclusions related to the government's performance. However, the detail and quantity of these measures should not overwhelm the users but allow the users to focus on the information presented.

The SEA proposal discusses several questions that can be used to identify key measures to be reported. For example, does the measure discuss topics receiving a large amount of public attention? Another example, is the reported information considered to be important by the elected officials and the citizens of the governmental unit? A third example, does the reported information have potentially significant economic, social or environmental effects?

GASB Concepts Statement No. 2, Service Efforts and Accomplishments Reporting, as amended by GASB Concepts Statement No. 5, Service Efforts and Accomplishments Reporting—an amendment of GASB Concepts Statement No. 2, provides three broad elements of performance measures: (a) measures of service efforts (inputs), (b) service accomplishment

measures (outputs and outcomes), and (c) measures of service efforts as related to service accomplishments (efficiency and cost-outcomes). An effective SEA report should include measures from all three of these elements.

Figure 2 of the SEA proposal illustrates these three broad performance elements. For example, an input measure of service efforts could be the cost of road maintenance by the governmental unit. An output measure of service accomplishment could be the number of miles/kilometers of roads repaired. An efficiency measure relating service efforts to service accomplishments could be the cost per mile/kilometer of road maintained (for example, resurfaced or seal-coated).

Key measures can be enhanced by comparisons to either internal (for example, over-time or established target objectives) or external (for example, other similar governmental units) data. Where appropriate, the key measures may include citizen and customer perceptions pertaining to the quality or satisfaction of the major programs or services. However, the presentation should be concise and readable, but also be objective and comprehensive in conveying both positive and negative results.

#### *2.1.4. Discussion and Analysis of Results and Challenges*

The management of a governmental unit needs to provide a discussion and analysis of the results that are reported in the SEA report. The discussion should include an objective narrative explanation of the results (both positive and negative) being reported. Also, the major challenges facing a governmental unit in accomplishing its goals and objectives need to be discussed objectively including consequences and the results of providing services. In discussing the analysis and challenges facing the governmental unit, the information that users consider to be important should be emphasized. However, the discussion and analysis should be concise, yet comprehensive.

The program or services performance reported in the SEA report may be impacted by external and/or internal factors. Examples of these factors may include budget constraints, social conditions, and actions of external organizations. A discussion of the external or internal factors may help the users to understand the effects of these factors on the reported SEA performance results.

## **2.2. Qualitative Characteristics**

In order to effectively communicate SEA performance information to users, qualitative characteristics should be incorporated into the SEA report. The SEA proposal suggests six qualitative characteristics (relevance, understandability, comparability, timeliness, consistency, and reliability). These qualitative characteristics are similar to those promulgated by the International Accounting Standards Board and the Financial Accounting Standards Board [Exposure Draft, *Conceptual Framework for Financial Reporting: Chapter 2 Qualitative Characteristics and Constraints of Decision-Useful Financial Reporting Information*, May 29, 2008].

#### *2.2.1. Relevance*

An effective SEA report should include information that is relevant to its users. Relevance refers to information that is capable of making a difference in a user's evaluation of governmental performance. Timeliness is important in making information relevant. The reported SEA performance information may not be relevant to the users if the report is not timely or consistent.

The SEA proposal lists several questions to be considered in determining whether information is relevant. For example, are the major goals and objectives of the programs and services included in the SEA performance report? Are the users given a basis in the SEA performance report for evaluating the level of achievement related to the major goals and objectives? Do the concerns that are important to users of the SEA report reflect the major goals and objectives of the programs or services of the governmental unit?

#### 2.2.2. *Understandability*

The SEA proposal indicates that performance information should be understandable to the users. That is, the information should be expressed simply and clearly. The reported information needs to include explanations and interpretations to assist users in comprehending the data. In the preparation of SEA performance information, it is necessary to consider the fact that the users have varying interests, needs, levels of understanding, and education. To evaluate the degree of understandability of SEA performance information, it may be necessary to obtain feedback from users (actual or potential) of the SEA report.

To enhance understandability, the SEA report should contain different levels of detail in order for users to utilize the appropriate performance information for their needs and interests. The inclusion of tables, charts, grids, or graphs in the SEA report could assist users in their understanding of performance information. Appendix A of the GASB proposal has excellent examples and illustrations of presentations of data that can be included in the SEA report.

#### 2.2.3. *Comparability*

Users in their evaluation of SEA performance information can benefit from having comparative data included in the SEA report. The usefulness of SEA performance data of a governmental unit can increase greatly if the information can be compared to data of prior years, established benchmarks (targets), or a similar governmental unit. Comparisons with prior years' data (time series) will permit the users to determine whether the SEA performance data is improving, deteriorating, or remaining the same.

However, time-series comparisons may not provide the users with information about whether a governmental unit is performing at an acceptable level. Providing benchmark/target information in the SEA report may permit the users to assess whether the programs or services are meeting their anticipated targets. When making comparisons to similar governmental units any known methodological, environmental, and demographic differences should be discussed to facilitate the users in their understanding of the comparative data.

#### 2.2.4. *Timeliness*

Timeliness involves having SEA performance information available to users before the information loses its capacity to influence decision making or to evaluate accountability. If performance information is not available when needed by the users, the SEA report has no value for future action. However, timeliness by itself does not make information useful, but the usefulness of the performance information diminishes as the time lag between the date of the event and the issuance of the SEA report increases. The SEA report should identify the period covered for the entire report and for each program or service presented.

#### 2.2.5. *Consistency*

Consistency involves reporting measures in the same way over time. The usefulness of SEA performance information about a specific governmental unit is greatly enhanced if it can be

compared with similar information (benchmarks) about the same governmental unit for prior accounting periods. Consistency in the application of measures over time increases the informational value of SEA performance comparisons. To avoid confusing SEA performance report users, the information should be presented in each accounting period in a consistent manner. In this way, the users can assess changes or trends in the SEA performance data over time.

Presentation format changes in SEA reports can occur for many legitimate reasons such as changes in program features and/or changes in administration priorities. If changes in format or measures do occur, these modifications should be disclosed to the users of the SEA performance reports. There should also be an explanation why these format or measure changes have occurred and a discussion of any potential consequences on the data reported.

#### 2.2.6. *Reliability*

To be helpful to SEA report users, effective performance data should be reliable and, as discussed previously, relevant. SEA performance reporting should be reliable in order to enhance credibility of the data in the eyes of the users. Reliable SEA performance information should have these characteristics: verifiability, objectivity, comprehensiveness in coverage, and faithful representation.

Verifiability is achieved when largely similar results are obtained by independent measurers using the same measurement techniques. The measurement instruments must be independently tested to verify that the output of the measures is accurate. Another approach to assure reliability of the output of the measures is to conduct internal system control reviews or to have program staff or director evaluations. If the verifiability of a measure cannot be assured, then the users need to be informed of this situation.

Effective SEA performance information has to be objective; that is, it should not be biased toward a particular interest group. The data should not be overstated or understated. In an objective SEA report the key performance data should be presented as accurately as possible reflecting both positive and negative results. SEA performance reporting needs to be objective because it serves many different governmental users who have diverse interests.

A SEA performance report should be comprehensive. To be comprehensive all significant data should be included in the report, when feasible, considering the cost of providing the data. On the other hand, no data should be excluded that would result in misleading the users of the performance information. However, the preparers of SEA information should exercise caution and not report excessive data because this may lead to “information overload” for the users. Reporting of comprehensive information is essential to faithfully represent governmental unit major performance results.

SEA performance reports should possess the quality of representational faithfulness. Representational faithfulness involves the achievement of agreement between performance measures and resources or events that those measures purport to represent. In order to have a faithful presentation of the results, SEA performance information should depict what actually occurred.

However, faithful representation could be compromised when the SEA performance measures become more complex. In this situation there needs to be a balance between reliability and relevance. In addition, the reliability and relevance of SEA performance information could be affected by the use of estimates in the reported information. If estimates are used, this fact should be disclosed and explained to the users.

### 2.3. Communication of SEA Information



Communication of SEA information is one of the three elements of the GASB proposed guidelines for voluntary SEA performance reporting. For SEA performance information to be effectively communicated, it is necessary to consider the intended audiences/users, levels of reporting, and forms of communication.

#### *2.3.1. Intended audiences/users*

The intended audiences/users need to be considered in an effectively communicated SEA performance report. Several potential users of SEA performance information are mentioned in GASB Concepts Statement 2, as amended, in paragraph 15. These users include citizens, elected/appointed officials, creditors/investors, and others who participate in governmental processes. The audiences/users should be involved in determining what SEA performance information is useful or pertinent to them and the preferred methods of receiving the information. This could be accomplished by questionnaires or surveys. The audience/user inputs may help the preparers to more effectively communicate SEA performance data.

The SEA performance report should reflect the different types of decisions that potential users may make. Also, in the preparation and reporting of SEA performance data, it should be kept in mind that users may understand and process information differently. For example, some users may prefer data to be displayed in graphs/bar charts while others would understand the data better if shown in columnar tables.

Different users of SEA performance reports may have a need for information related to specific programs or services. They also may desire different types of measures and require different levels of detail. SEA performance information may need to be presented in aggregated or disaggregated formats depending on the needs of the users.

Some citizens may be satisfied with summarized data in order to assess accountability of a governmental unit. Whereas, elected governmental officials may want detailed, disaggregated information for decision making. For example an elected member of the city council may want information categorized by geographic location or income level. Also, other users, such as creditors, may need sufficient, detailed information in order to evaluate the overall efficiency or effectiveness of the operations of the governmental unit.

#### *2.3.2. Levels of Reporting*

An effective SEA performance report presents different levels of detail in order for users to obtain appropriate or desired information for their decision-making purposes. Different levels of information are important because the users have different interests, requirements, degrees of understanding, educational background, and involvement in governmental activities.

To provide different levels or layers of data it may be desirable to present a hierarchy of information in the SEA report. Specifically, the SEA report can be organized in a hierarchical structure proceeding from summarized information to detailed information. To aid the users in their understanding of the SEA performance information, the SEA report should include clear, identifiable links that tie the various information levels together. Appendix A of the GASB proposal gives several good examples of multi-level reporting with identifiable links.

#### *2.3.3. Forms of Communication*

An effective SEA report may need to use various forms of communication to disseminate information to governmental users because different audiences may use different communication methods. For example, text messaging may appeal to younger audiences while print media may

be more appropriate for older users. Other forms of communication that may be utilized for effective SEA reports include direct mailings, e-mails, web pages, blogs, presentations in person, podcasts, videos, newspaper or journal articles, and press releases.

### 3. Recommendations

The guidelines suggested by GASB in its proposal should greatly assist governmental units in preparing and presenting SEA performance information. The users of governmental data should be in a better position to analyze and evaluate the efficiency and the effectiveness of the governmental processes. However, the authors present below several recommendations for further improvement of SEA performance reporting.

There may be situations when the content of the SEA performance report is changed to reflect audience/user input obtained from a questionnaire or survey administered by the governmental unit related to the users' needed pertinent information. In this case, the governmental unit should have a follow-up procedure to determine if the revised report is satisfactory to the users.

GASB recommends that when changes in format or measures are made by a governmental unit in its SEA report, there should be disclosure and a discussion of the reasons why these changes have occurred. When there is an effect on prior years' comparative data, the presentation of prior years' data should be restated to reflect the change in measures or format.

Benchmarks (targets) can be utilized for comparative purposes with actual data in SEA performance reporting. Since targets can be subject to manipulation or distortion, the governmental unit should include a discussion in the SEA report of how the targets are developed or selected.

To increase the effectiveness of the SEA report, governmental units may disseminate information using various forms of communication (for example, direct mailings or videos). The governmental units might want to survey users to determine if the methods of communication presently being utilized are appropriate for the intended audiences.

GASB should require governmental units to make appropriate SEA disclosures—not specific disclosures, but disclosures that are relevant to the needs of the SEA performance report users. This requirement would make the government more accountable to its users than as GASB recommends in the proposal to simply have SEA disclosures made on a purely voluntary basis.

There is a need for transparency in governmental reporting. GASB's proposal for SEA performance reporting should increase the transparency of the data presented to the constituents and other governmental users.

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